



**GREE, Inc.**

FY2016 Third Quarter Financial Results

April 28, 2016

# Executive Summary



## Financial Results Overview

### ■ Net Sales ¥16.8 billion, Operating Income ¥3.6 billion

- Sales slightly short of expectations, but Operating Income held steady due to successful cost control

## Business Overview

### ■ Progress in development of native games to be released in 4Q

- Plans to release three domestic native game titles including those released in April
- New overseas native game title released in March
- New Web games management outsourcing business off to a smooth start

### ■ Progress in efforts to increase earnings in new businesses

- New services launched to expand home-related services platform business
- Steady growth in health & fitness platform business

## FY16 Earnings Forecast

### ■ Net Sales ¥70.0billion, Operating Income ¥14.0billion, Net Income ¥11.5billion

- Maintaining Operating Income forecast with greater-than-expected progress in cost control
- Raising Net Income forecast due to lower taxes, as we expect the valuation loss on investment securities posted in FY15 to reduce our tax burden

# **1. Financial Results Overview**

# **2. Operational Overview**

# **3. Appendix**

# **1. Financial Results Overview**

## 2. Operational Overview

## 3. Appendix

# 1. Financial Results Overview (Consolidated)

## FY16 3Q Financial Results Overview

Net Sales ¥16.8billion, Operating Income ¥3.6billion

Billions of Yen

|                  | FY16 3Q |       |       | FY16 2Q | FY15 3Q |
|------------------|---------|-------|-------|---------|---------|
|                  |         | QoQ   | YoY   |         |         |
| Net Sales        | 16.81   | -1.32 | -5.18 | 18.13   | 21.99   |
| EBITDA           | 3.99    | -0.37 | -2.02 | 4.36    | 6.01    |
| Operating Income | 3.64    | -0.37 | -1.27 | 4.00    | 4.91    |
| Ordinary Income  | 2.58    | -1.94 | -2.35 | 4.51    | 4.93    |
| Net Income       | 1.43    | -1.11 | -0.24 | 2.54    | 1.67    |

- Breakdown of FY16 3Q Net Sales: Paid service sales ¥15.89 billion; Ad Media Sales ¥0.92 billion
- EBITDA = Operating Income/loss + depreciation costs + amortization of goodwill

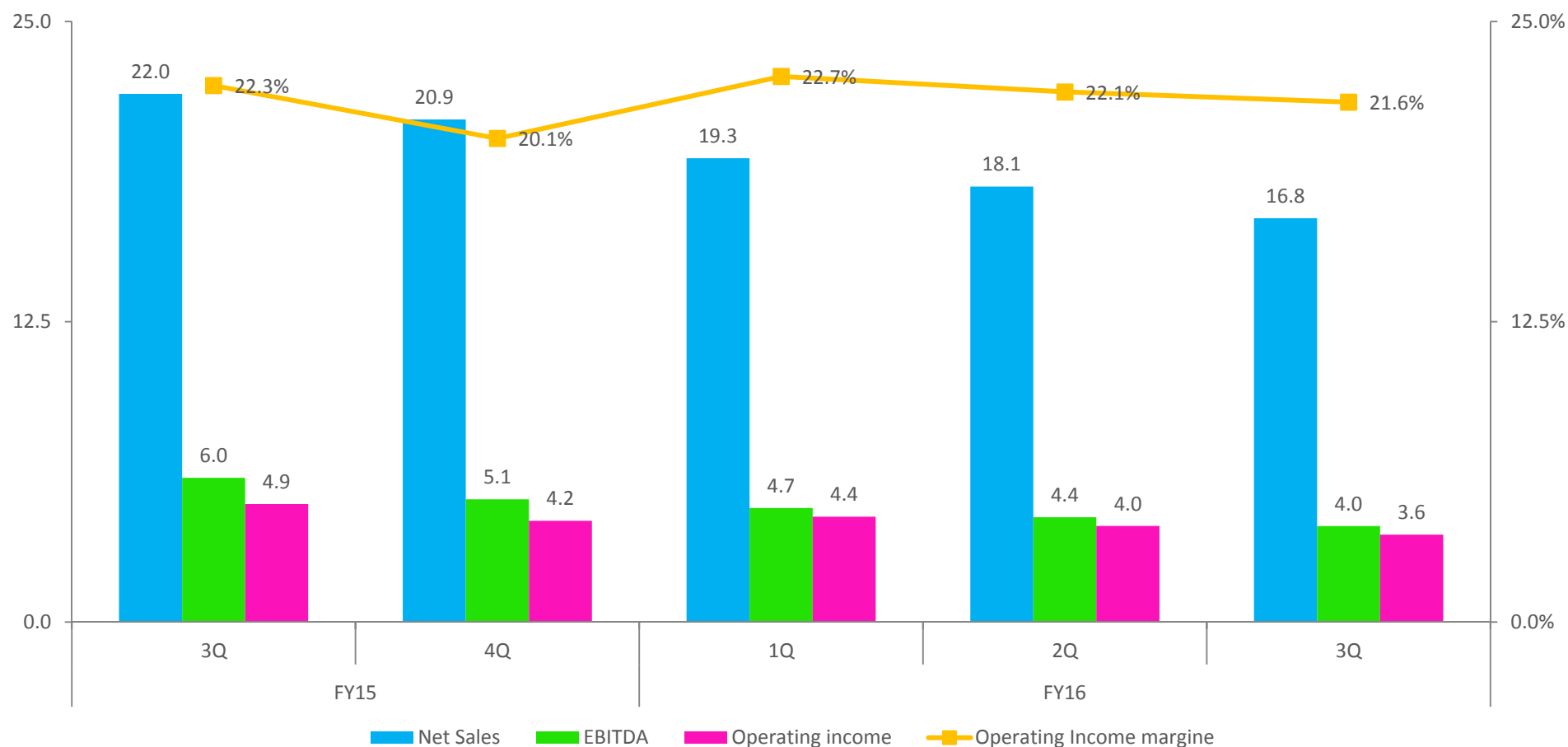
# 1. Financial Results Overview (Consolidated)



## Net Sales, EBITDA, and Operating Income

Operating Income margin narrowed by 0.5 percentage points to 21.6%

Billions of Yen



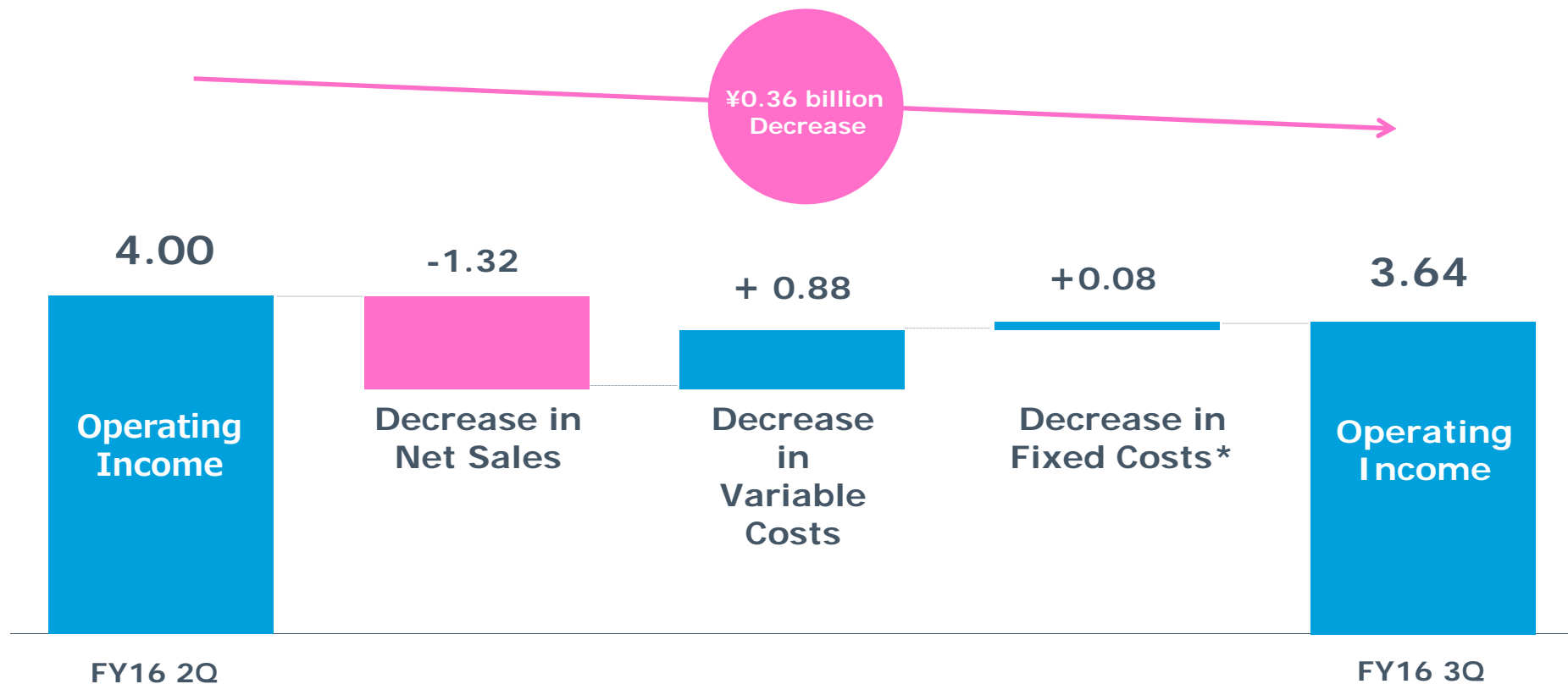
## 1. Financial Results Overview (Consolidated)



### Operating Income Analysis

Operating Income decreased by ¥0.36 billion due to lower sales

Billions of Yen



\*Impact from decrease in Fixed Costs adjusted for impact of consolidation of LIMIA in 1H: +¥0.36billion

# 1. Financial Results Overview (Consolidated)



## FY16 3Q Cost Structure

Total costs decreased by ¥1.0 billion QoQ to ¥13.2 billion

Billions of Yen

|                             |                       | FY16<br>3Q   | QoQ          | YoY          | Factors in change (QoQ)  | FY16<br>2Q   | FY15<br>3Q   |
|-----------------------------|-----------------------|--------------|--------------|--------------|--|--------------|--------------|
|                             | Advertising           | 1.09         | -0.53        | -0.96        | Mass-media promotion costs (ratio to Net Sales: 2Q 8.9% → 3Q 6.4%) | 1.61         | 2.05         |
|                             | Commission Fees       | 3.31         | -0.32        | -0.94        | Decreased due to lower sales                                       | 3.63         | 4.25         |
|                             | Other                 | 0.39         | -0.03        | 0.32         | -  | 0.43         | 0.07         |
| <b>Total Variable Costs</b> |                       | <b>4.79</b>  | <b>-0.88</b> | <b>-1.57</b> |  | <b>5.67</b>  | <b>6.37</b>  |
|                             | Labor Costs           | 4.05         | 0.05         | -0.83        | Consolidated headcount: end-2Q: 1,459 → end-3Q 1,467               | 4.01         | 4.88         |
|                             | Rental Costs          | 0.72         | -0.13        | -0.20        | Progress made in reducing server leasing fees                      | 0.85         | 0.92         |
|                             | Depreciation          | 0.23         | -0.01        | -0.47        | -  | 0.24         | 0.70         |
|                             | Goodwill Amortization | 0.12         | -0.00        | -0.28        | -  | 0.12         | 0.40         |
|                             | Other                 | 3.26         | 0.01         | -0.55        | Increased outsourcing costs  | 3.24         | 3.81         |
| <b>Total Fixed Costs</b>    |                       | <b>8.38</b>  | <b>-0.08</b> | <b>-2.33</b> |  | <b>8.45</b>  | <b>10.71</b> |
| <b>Total costs</b>          |                       | <b>13.17</b> | <b>-0.95</b> | <b>-3.91</b> |  | <b>14.13</b> | <b>17.08</b> |



# 1. Financial Results Overview (Consolidated)



## FY16 Earnings Forecast

Net Sales of ¥70.0billion, Operating Income of ¥14.0billion Billions of Yen

|                   | 1H Results | 2H Forecast | FY16 Forecast                      |                                      |            |
|-------------------|------------|-------------|------------------------------------|--------------------------------------|------------|
|                   |            |             | Full-year Forecast<br>(as of 4/21) | Previous Forecast<br>(announced 2/4) | Difference |
| Net Sales         | 37.4       | 32.6        | 70.0                               | 72.0                                 | -2.0       |
| Operating Income  | 8.4        | 5.6         | 14.0                               | 14.0                                 | 0          |
| Ordinary Income   | 8.5        | 4.0         | 12.5                               | 14.0                                 | -1.5       |
| Net Income (loss) | 4.9        | 6.6         | 11.5                               | 8.0                                  | 3.5        |

### ■ Top Line

- We have lowered our Net Sales forecast because domestic and overseas native game sales are trending below expectations

### ■ Costs

- We leave our Operating Income forecast unchanged due to greater-than-expected cost cutting progress resulting from our continued cost control efforts
- We have revised our previous forecast to factor in foreign currency adjustments resulting from yen appreciation
- We have raised our Net Income forecast due to lower taxes, as we expect the valuation loss on investment securities of an affiliated company posted in FY2015 to reduce our tax burden

1. Financial Results Overview

**2. Operational Overview**

3. Appendix

## 2. Operational Overview: Summary



### Review and Summary of 3Q


| Business Plan        |           | Review  |
|----------------------|-----------|---|
| Native Game Business | Japan     | <ul style="list-style-type: none"><li>• Launch new titles and generate hit titles</li><li>• Made steady progress toward release of <i>Memories of the Blue</i></li><li>• <i>Soul Arms</i> off to a strong start</li></ul>               |
|                      | Over-seas | <ul style="list-style-type: none"><li>• Business Restructuring</li><li>• Released <i>League of War Mercenaries</i></li></ul>  |
| Web Game Business    |           | <ul style="list-style-type: none"><li>• Maintain profitability over medium term</li><li>• Strengthened new businesses by leveraging our game operation know-how</li></ul>   |
| New Businesses       |           | <ul style="list-style-type: none"><li>• Create new sources of income</li><li>• Home-related services platform: Launched MarketPlace business</li><li>• Health &amp; Fitness platforms: Increased usage rate of Lespas service</li></ul> |
| Costs / Investments  |           | <ul style="list-style-type: none"><li>• Implement strict cost controls</li><li>• Made progress in reducing Fixed Costs (down ¥2.3billion YoY)</li></ul>   |

## 2. Operational Overview: Summary



### Native Game Pipeline

Plan to release 3 new titles in 4Q, 8 in pipeline for release by 1H FY17

| Market   | FY16  |  | FY17  |
|----------|---|--|---|
|          | 3Q  | 4Q   | 1H  |
| Japan    | —   | Approx. <b>3</b> titles<br>Self-Developed: 2 titles<br>Co-Developed: 1 title | Approx. <b>5</b> titles<br>2 titles<br>3 titles |
| Overseas | <i>League of War Mercenaries</i><br>(co-developed)<br> | —  | —   |

- Self-developed titles in pipeline have received approval for development
- Self-developed titles are being developed in GREE's studios in Japan and North America
- Co-developed titles are developed in cooperation with partners (cooperation in planning, development, distribution and operations)

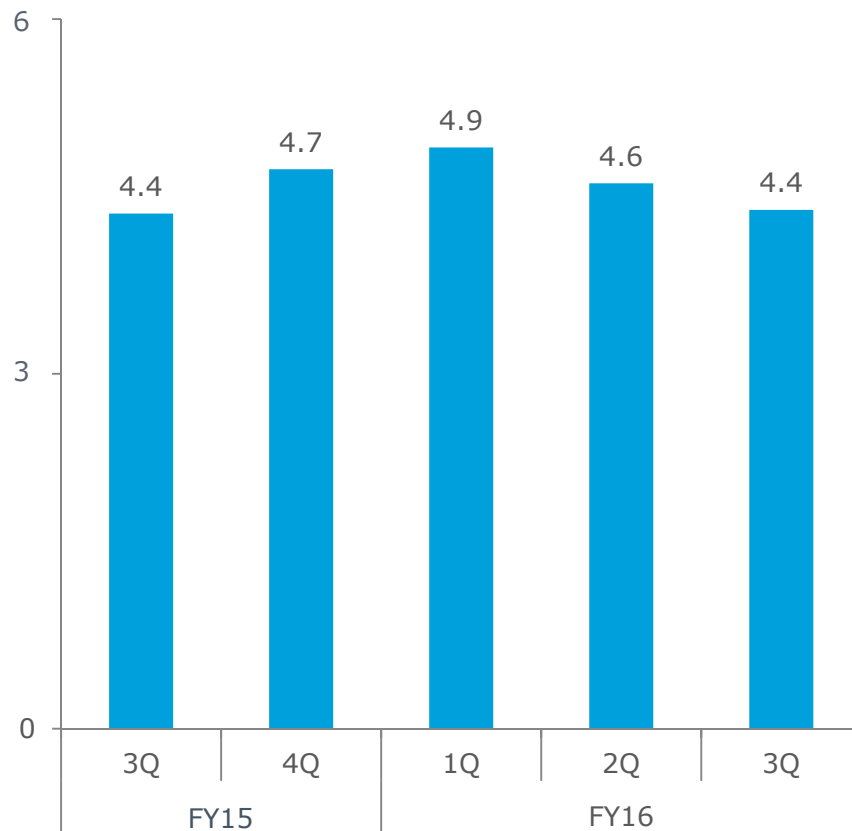
## 2. Operational Overview: Native Games



### Progress Made

#### Coin Consumption

Billions of coins



#### Topics

- *Soul Arms* released on April 25th
  - Off to a strong start
- Steady progress in development of *Memories of the Blue*
  - Currently preparing for beta testing
- Steady progress in development of *Crash Fight*
  - Currently preparing for beta testing



## 2. Operational Overview: Native Games (Japan)



### Releasing New Titles

*Soul Arms* released on April 25<sup>th</sup>



- Next-generation full-blown action RPG featuring a battle system that allows multiple players to join-in and amazing belt-scroll action
- Player's strive to become the ultimate warrior utilizing over 400 fully customizable items



## 2. Operational Overview: Native Games (Japan)



### Development of New Titles (1)

Steady progress in development of *Memories of the Blue*



- Currently adjusting game balance for beta testing and marketing planning in partnership with LINE

Note: Screenshots are of development version



## 2. Operational Overview: Native Games (Japan)



### Development of New Titles (2)

Currently developing *Crash Fight*



- 100% real-time battle game for up to 6 players takes advantage of Pokelabo's advanced real-time network technology
- Currently debugging and adjusting game balance in preparation for beta testing

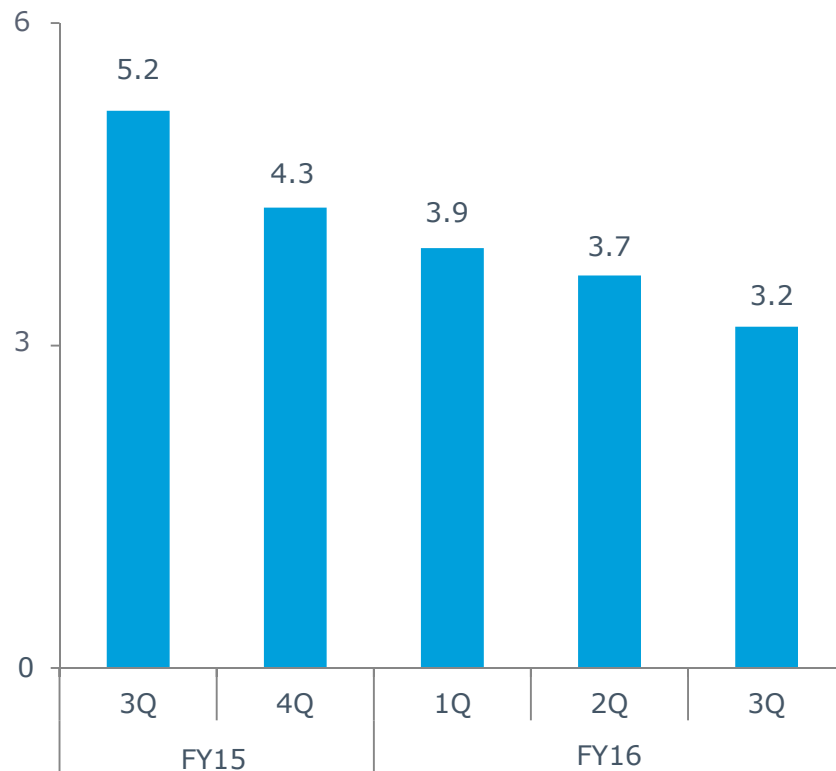


## 2. Operational Overview: Native Games (Overseas)

### Business Progress

#### Coin Consumption

Billions of Coins



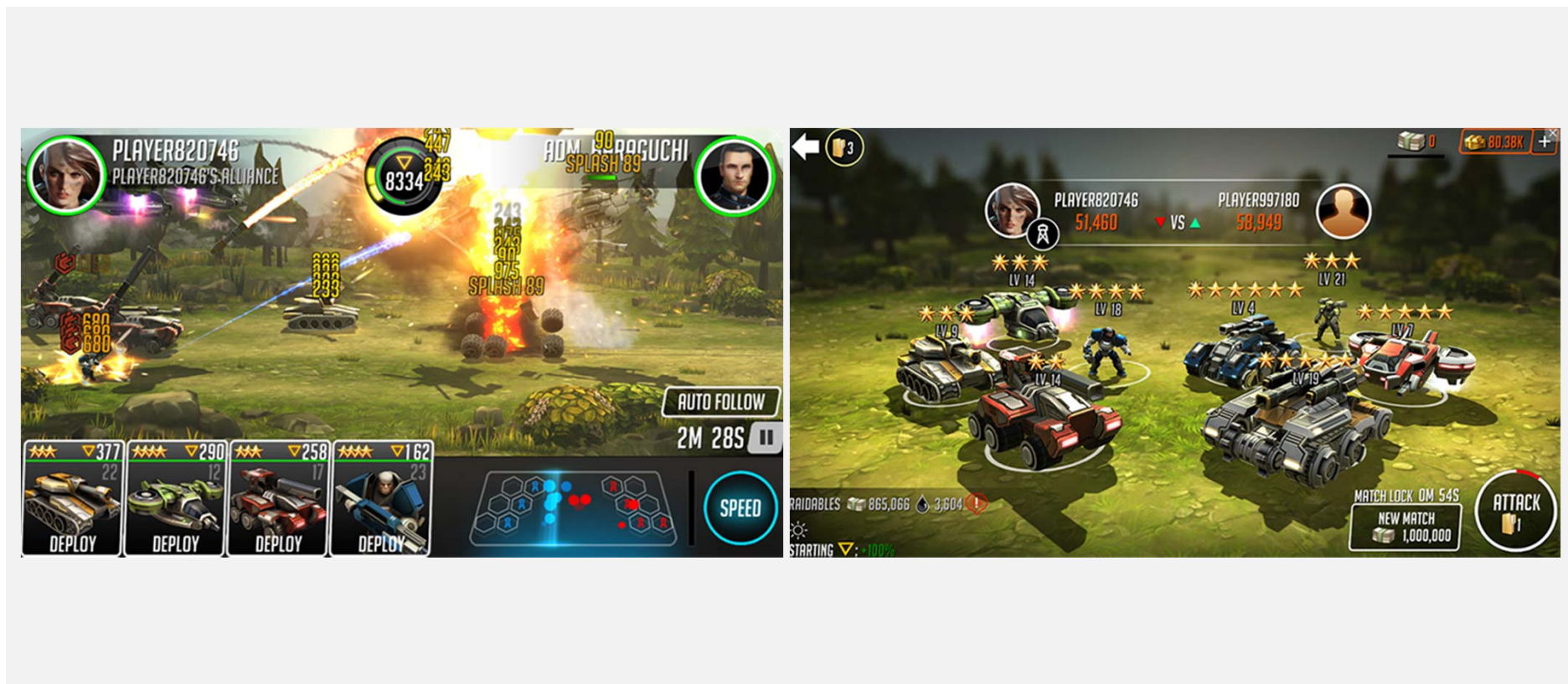
#### Topics

- *League of War Mercenaries*
  - Global release on March 31<sup>st</sup>
  - Developing the European market business with this follow up to *Knights & Dragons*
- Restructuring to re-ignite growth
  - Adjusting operation costs for existing titles
  - Allocated more human resources to support new titles

## 2. Operational Overview: Native Games (Overseas)

### Release of New Titles

Global release of *League of War Mercenaries* on March 31



- 3D action strategy game developed in cooperation with MunkyFun Inc.
- Selected on the recommended list for App Store and Google Play (in North America)

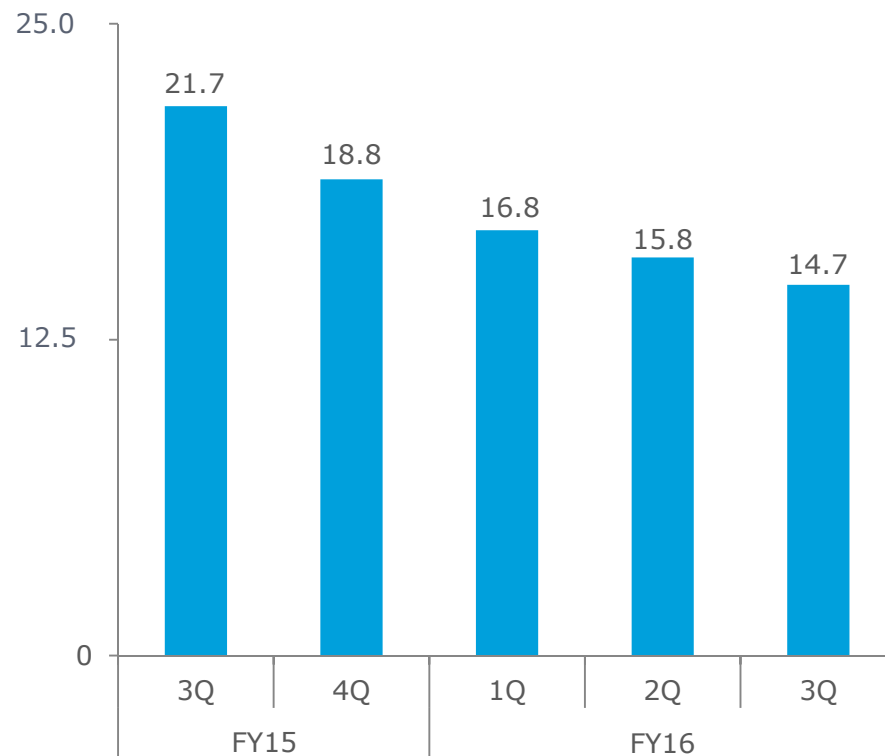
## 2. Operational Overview: Web Games



### Business Progress

#### Coin Consumption

Billions of Coins



#### Topics

- funplex, Inc.: Game Operator
  - Smooth launch
  - Acquisitions/operation contracts trending well above expectations
- ExPlay: Customer Experience Provider
  - Leveraging our customer service know-how to provide high-quality user experiences

## 2. Operational Overview: Web Games



### New Businesses (1)

Leveraging our know-how from years of game operation to create new service businesses

#### Funplex off to a strong start

Game operation business



##### Strengths in Game Operation

- High sustainable Coin Consumption
  - Leveraging cross-promotion/IP collaboration know-how from many years of operating first-party titles
- Low-cost/high-quality operation
  - Making use of our offshore operations base in Vietnam

#### ExPlay services launched

Customer experience business



##### Strengths in Customer Service

- High-quality customer service know-how
  - Using VOC to help improve Customer Service
  - HR training system that promotes greater customer orientation

## 2. Operational Overview: Web Games



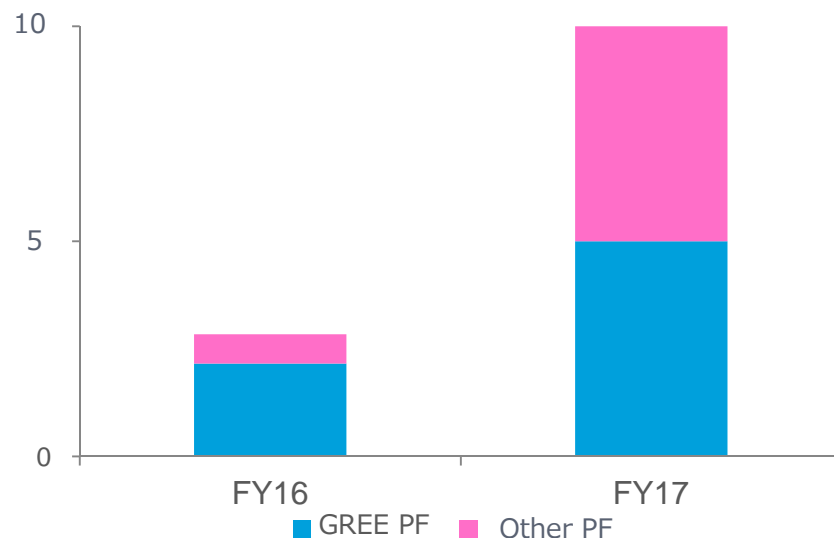
### New Businesses (2)

Achieving stable growth in markets with growth potential

#### Outlook for growth in game operation business

Acquisitions/operation contracts trending well above expectations

Billions of coins



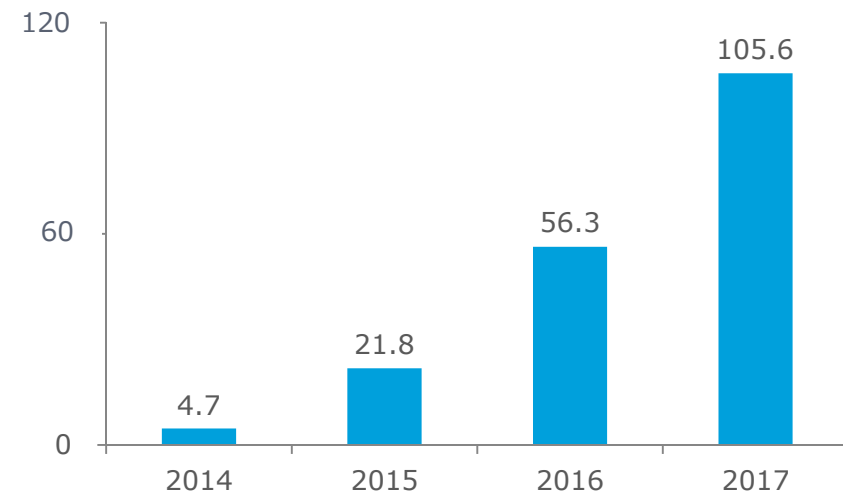
- The game operation business is currently handling multiple enquiries
- Coin Consumption could reach ¥10billion in FY17

Note: The ratio of GREE platform games to other platform games is based on our current estimate

#### Size of game operation business market

Market expanding rapidly

Billions of Yen



Source: Seed Planning, Inc.; digitalinfact

- The game operation business market is also expected to grow next year
- Development of a business in a market that has potential for stable growth

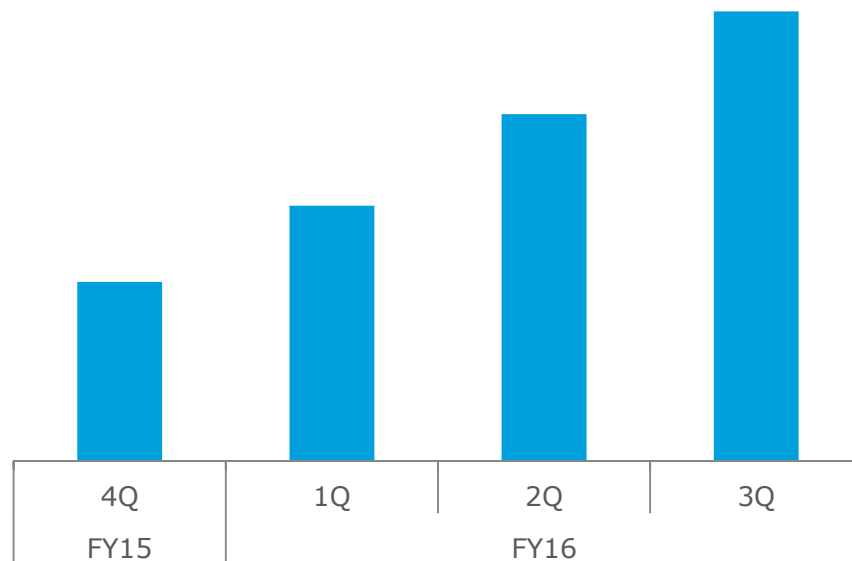
## 2. Operational Overview: Home-related Business



### Topics

#### Increased orders at Renoco

Steady growth in number of orders



- Targeting orders of roughly ¥10billion in FY18
- Aim to increase average sale price by expanding product lineup

#### Launch of LIMIA service

Launch of LIMIA Marketplace

##### Customers

##### Broad Needs

- Reform
- MY home
- Renovation
- Home design
- Store Renovation
- etc.

**LIMIA**  
**Market**  
**Place**

##### Member Business / Specialist

##### Response & Proposals to Enquiries

- Renovation Companies
- Reform Companies
- Custom Home
- Architect
- Architectural design
- etc.

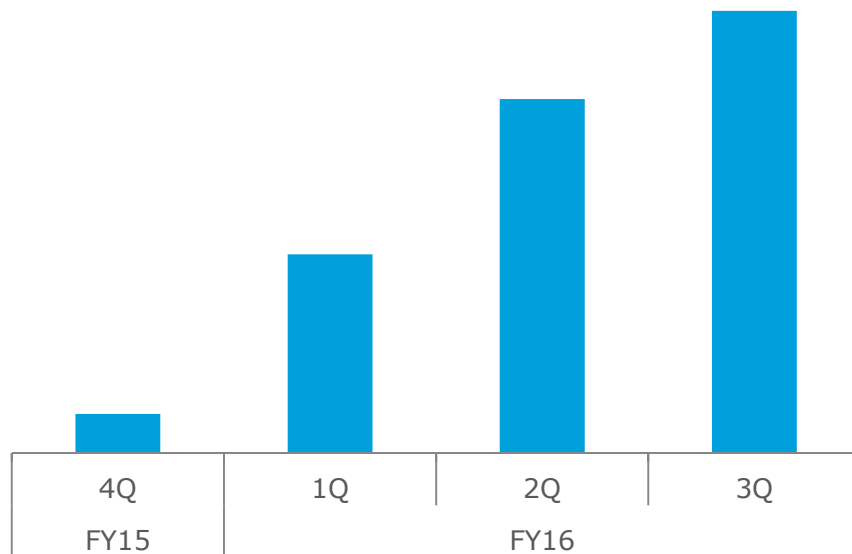
- Matching affiliates with a wide range of customer needs
- Over 2,500 specialists with over 80 fields of specialty registered

## 2. Operational Overview: Health & Fitness Business

### Topics

#### Increased Usage of Lespas Service

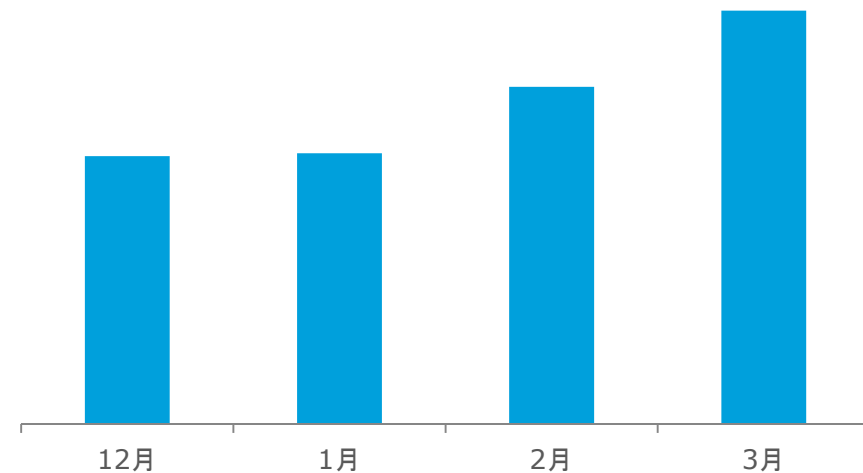
Fixed-price fitness lesson service



- Steadily expanding network of affiliates
- Launching new measures to increase sales in 4Q, targeting sales of roughly ¥2.0billion in FY18

#### Increased Usage of Smart Sitter Services

Babysitter introduction service



- Steadily expanding number of registered sitters, number of jobs per month also rising

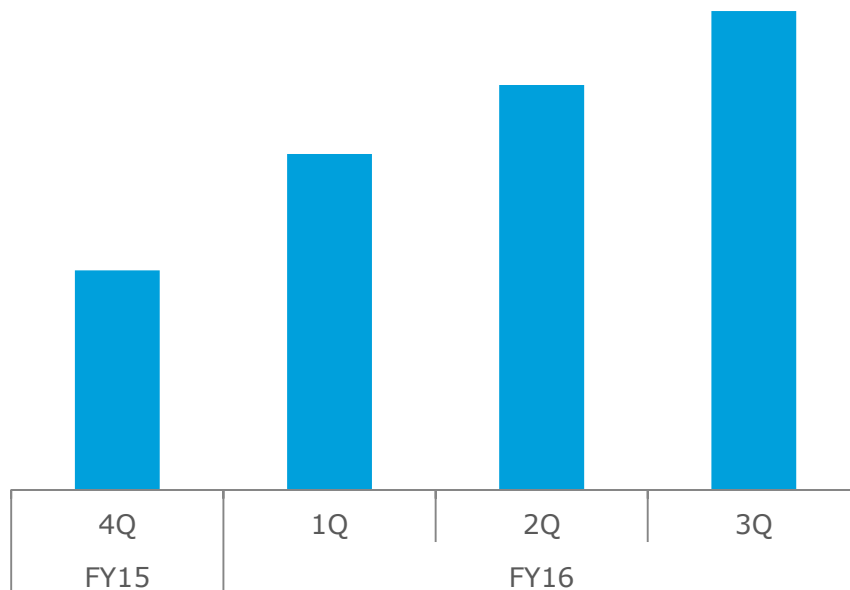
## 2. Operational Overview: Ad Media Business



### Topics

#### Steady Sales Growth at AdColony

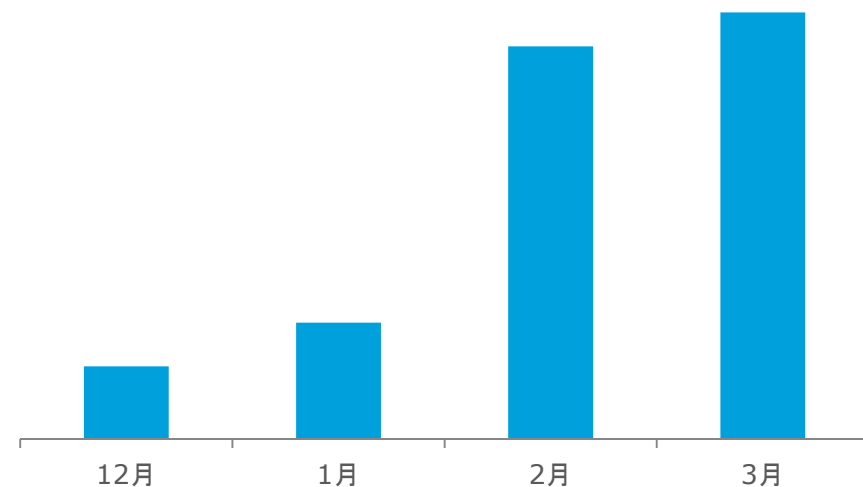
Video advertising distribution platform



- Steady progress in attracting valuable media owners and advertisers
- Aiming for further growth in transaction volume in high-growth-potential video advertising market

#### Steady Sales growth at WOOZ

Video production and casting service



- Providing full range of services including video ad production, casting, distribution, and operational support
- Expanding network of distributors



## 2. Operational Overview: VR Business



### Topics

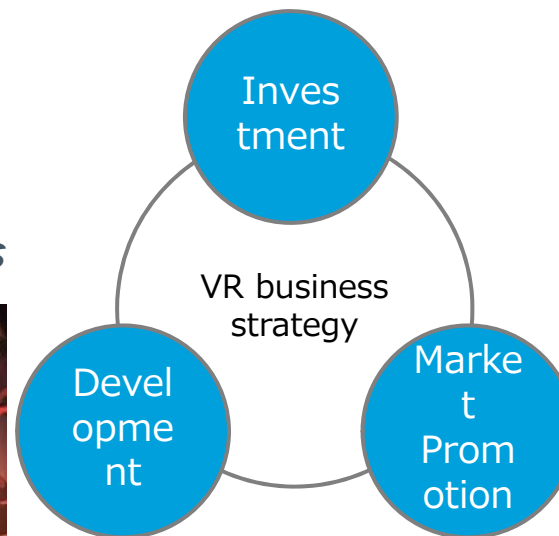
#### Establishment of VR Fund GVR Fund

Investing in the top VR companies in North America across industries

##### *Tomb of the Golems*



First global VR release by a Japanese developer



##### Japan VR Summit



May 10, 2016

1. Financial Results Overview

2. Operational Overview

**3. Appendix**

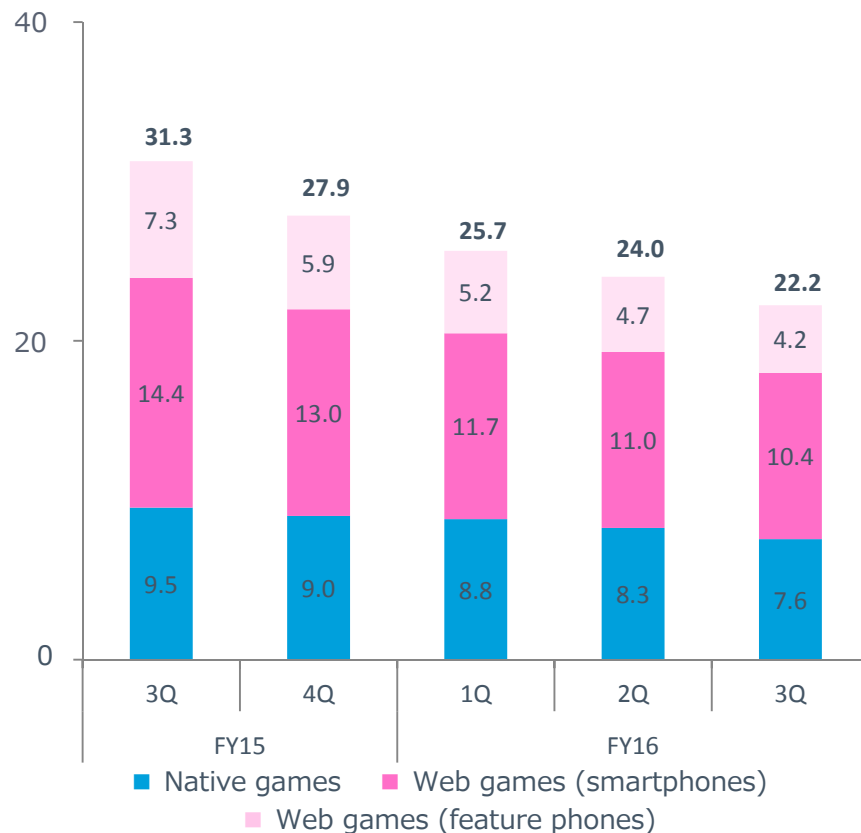
### 3. Appendix



## Coin Consumption (1)

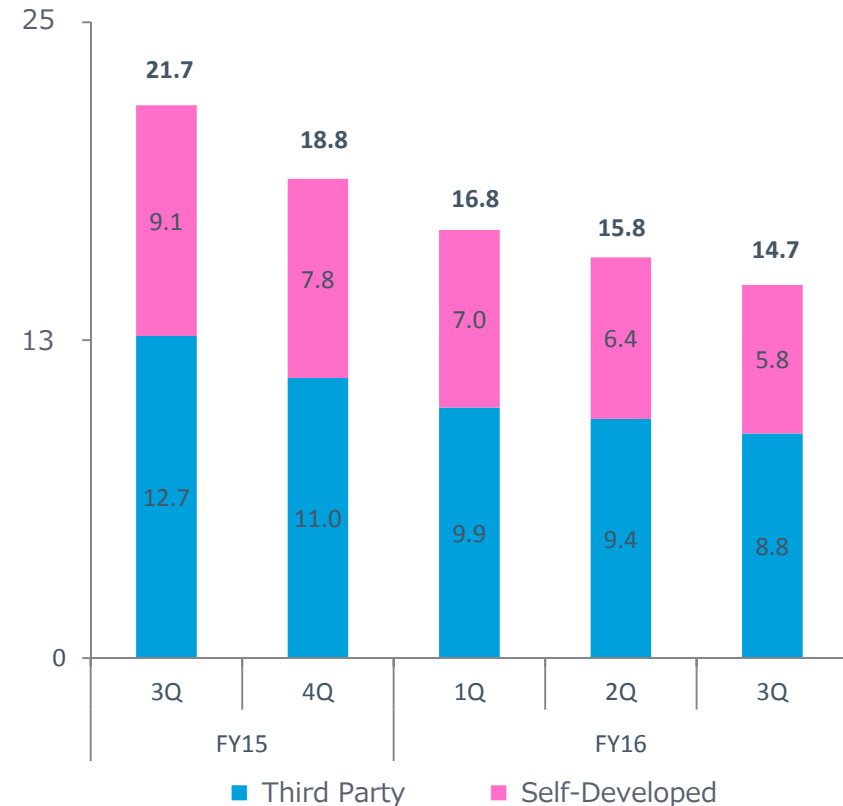
### Overall Coin Consumption

Billions of Coins



### Web Game Coin Consumption

Billions of Coins



Note:  
Titles in which GREE is credited are categorized as "Self-Developed/ Co-developed"

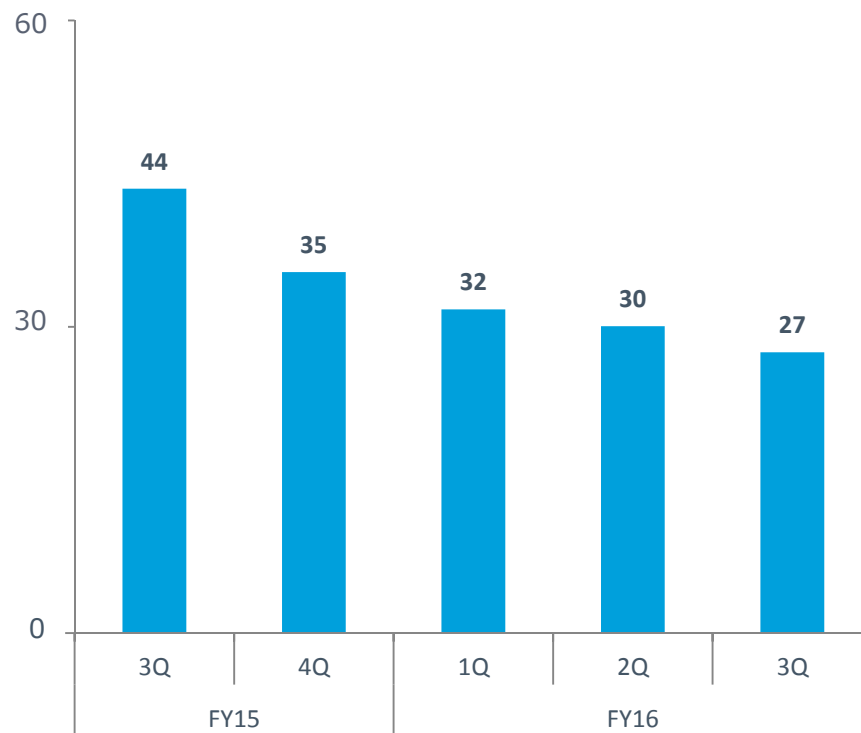
### 3. Appendix



## Coin Consumption (2)

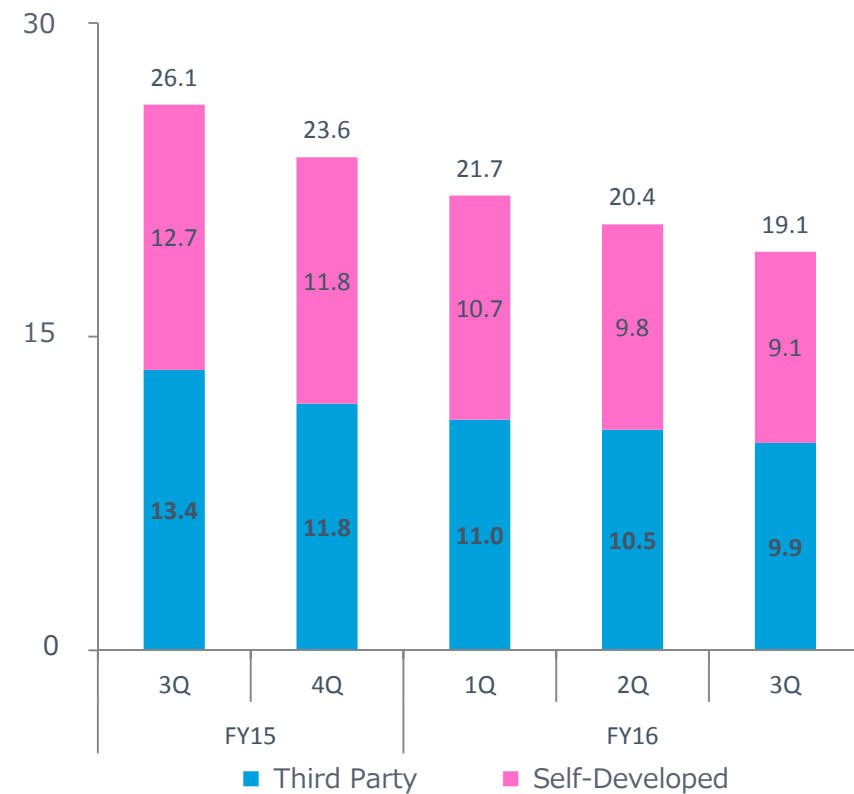
### Overseas

(MM USD)



### Japan

Billions of Coins



Notes:

- Classified by area of consumption
- Titles in which GREE is credited are categorized as "Self-Developed/Co-developed"

### 3. Appendix



## FY16 3Q Cost Structure

Millions of Yen

|  |                    | FY16 3Q       | QoQ        | YoY            | FY16 2Q       | FY15 3Q       |
|--|--------------------|---------------|------------|----------------|---------------|---------------|
|  | Rental Charges     | 720           | - 126      | 199            | 846           | 919           |
|  | Labor Costs        | 2,217         | - 64       | - 809          | 2,280         | 3,025         |
|  | Others             | 1,274         | - 244      | - 909          | 1,517         | 2,183         |
|  | Cost of sales      | 4,210         | - 433      | - 1,917        | 4,643         | 6,127         |
|  | Advertising        | 1,088         | - 526      | - 958          | 1,614         | 2,046         |
|  | Commission Fees    | 3,311         | - 320      | - 939          | 3,631         | 4,250         |
|  | Labor Costs        | 1,837         | 112        | - 22           | 1,725         | 1,860         |
|  | Others             | 2,728         | 213        | - 67           | 2,515         | 2,795         |
|  | SG&A               | 8,964         | - 520      | - 1,987        | 9,484         | 10,950        |
|  | <b>Total Costs</b> | <b>13,174</b> | <b>954</b> | <b>- 3,904</b> | <b>14,128</b> | <b>17,078</b> |

### 3. Appendix



## FY16 3Q Balance Sheet

Billions of Yen

|                           | FY16 3Q | QoQ    | YoY     | FY16 2Q | FY15 3Q |
|---------------------------|---------|--------|---------|---------|---------|
| Current Assets            | 88.75   | - 1.89 | - 9.55  | 90.64   | 98.30   |
| Fixed Assets              | 22.06   | 0.62   | - 15.29 | 21.43   | 37.35   |
| Total Assets              | 110.81  | - 1.27 | - 24.84 | 112.07  | 135.65  |
| Current Liabilities       | 10.29   | - 3.69 | - 15.80 | 13.97   | 26.09   |
| Fixed Liabilities         | 0.63    | - 0.05 | - 1.34  | 0.68    | 1.97    |
| Total Liabilities         | 10.92   | - 3.74 | - 17.14 | 14.66   | 28.06   |
| Total Net Assets          | 99.89   | 2.47   | - 7.70  | 97.42   | 107.59  |
| Cash and Cash Equivalents | 77.36   | 0.43   | 2.72    | 76.93   | 74.64   |
| - Interest-bearing debt   | -       | -      | - 4.27  | -       | 4.27    |
| Net Cash                  | 77.36   | 0.43   | 6.99    | 76.93   | 70.37   |
| Goodwill                  | 1.35    | - 0.13 | - 12.74 | 1.48    | 14.09   |
| Assets related to titles  | 0.05    | - 0.09 | 0.42    | 0.14    | 0.47    |

### 3. Appendix



## Breakdown of Group Headcount

Number of Employees

|   | Group companies  | Headcount at End-3Q |
|---|--|---------------------|
| Japan Game Business                         | -  | 849                 |
| Native Game Business                        | Pokelabo, Wright Flyer Studios   | (460)               |
| Web Game Business                           | -  | (234)               |
| Shared Game Depts.                          | -  | (155)               |
| Native Game Business (Overseas)             | Includes GREE International (U.S. Studio), GREE Korea (Korea Studio), etc. | 222                 |
| Commerce and Media, Investment, Advertising | Includes Glossom, Sekaie, LessonPass, etc.                                 | 226                 |
| Corporate, Headquarters                     | Includes GREE Business Operations  | 145                 |
| Engineering, Headquarters                   | -  | 74                  |
| <b>Total</b>                                | -  | <b>1,516</b>        |

Note: Includes non-consolidated group companies; as of March 31, 2016



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